

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Jackson County Intermediate School District	County Jackson
Audit Date June 30, 2005	Opinion Date September 16, 2005	Date Accountant Report Submitted to State: November 4, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

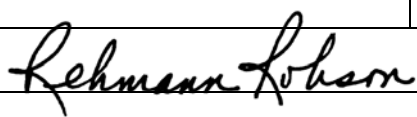
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



**Jackson, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

For the Year Ended June 30, 2005

## TABLE OF CONTENTS

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	<u>PAGE</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-9
 <b>Basic Financial Statements</b>	
District-wide Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund.....	16-17
Special Education Special Revenue Fund.....	18-19
Vocational Education Special Revenue Fund .....	20-21
Statement of Fiduciary Assets and Liabilities .....	22
Notes to the Financial Statements .....	23-35
 <b>Combining and Individual Fund Financial Statements</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheet .....	36
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances .....	37
Agency Funds – Statement of Changes in Assets and Liabilities .....	38

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

For the Year Ended June 30, 2005

## TABLE OF CONTENTS (Concluded)

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	<u>PAGE</u>
<b>Single Audit</b>	
Schedule of Expenditures of Federal Awards .....	39
Notes to Schedule of Expenditures of Federal Awards .....	40
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	41-42
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	43-44
Schedule of Findings and Questioned Costs .....	45-47
<b>Appendix</b>	
Management's Response and Corrective Action Plan	

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

September 16, 2005

Board of Education  
Jackson County Intermediate School District  
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Jackson County Intermediate School District** (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Jackson County Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Jackson County Intermediate School District as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, Special Education Special Revenue Fund and Vocational Education Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of Jackson County Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County Intermediate School District's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Jackson County Intermediate School District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of Jackson County Intermediate School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## **Management's Discussion and Analysis**

This section of the Jackson County Intermediate School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follow this section.

### **Financial Highlights**

- The District's financial status remained relatively constant, when compared to last year's financial position.
- Overall, revenues increased approximately \$1.5 million, or 3.1%, when compared to the prior year. The District continues to rely more on local revenue as funding from state sources decreased by \$1.2 million (10.3%) to \$11 million. This represents 2 consecutive years of reductions in state funding, which total \$3 million during that time frame.
- Total program costs, before considering internal transfers, increased approximately \$4.6 million, as the ISD continues to support programming for its constituent local school districts, especially in the area of Special Education. However, dating back to the fiscal year 2001, expenditures have increased only \$1.1 million in total, or an average of 0.6% per year.
- Management continues to seek ways to improve services to local districts and agencies in a more cost effective manner.

### **Overview of Financial Statements**

This annual report consists of two parts: Management's Discussion & Analysis (this part) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status. These statements are intended to give the reader of the financial statements a view of the District's operations comparable to for-profit financial statements.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements. The fund financial statements are depicted in the format past audits were presented.
- The *governmental fund statements* tell how basic services such as regular, special and career and technical education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.



Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of the overview section of Management’s Discussion and Analysis highlights the structure and contents of each of the statements.

**Figure A-1**

**Major features of the district-wide and Fund Financial Statements**

		<u>Fund Financial Statements</u>	
	District-Wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary (the District has no proprietary funds) or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required Financial Statements	Statement of Net Assets  Statement of Activities	Balance Sheet  Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resource focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

## ***District-wide Statements***

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one measure of the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities presented in the following category:

- ***Governmental activities***: Most of the District's basic services are included here, such as regular, special and career and technical education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

## ***Fund Financial Statements***

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as local taxes or federal grants.)

The District has two kinds of funds:

- ***Governmental funds***: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences between them).
- ***Fiduciary funds***: The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

**Net assets.** The District's combined net assets on June 30, 2005 decreased 7.2% to \$19.0 million, compared to the year before. Most of this change in the District's financial position came from its increased governmental activities. The Statement of Activities attempts to place the District's not-for-profit activities into a for-profit light. The Statement of Activities includes such charges as depreciation expense and gains on sales of depreciated assets. Normally, these items are not a part of a not-for-profit financial statement.

### Net Assets

	June 30,	
	2005	2004
<b>Assets</b>		
Current and other assets	\$ 16,268,631	\$ 17,302,153
Capital assets, net	10,438,376	10,238,779
<b>Total assets</b>	<u>26,707,007</u>	<u>27,540,932</u>
<b>Liabilities</b>		
Current and other liabilities	5,601,267	5,080,902
Long-term debt	1,815,790	1,954,068
<b>Total liabilities</b>	<u>7,417,057</u>	<u>7,034,970</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	10,333,523	10,238,779
Restricted	5,474,332	5,832,036
Unrestricted	3,231,395	4,435,147
<b>Total net assets</b>	<u><u>\$ 19,039,250</u></u>	<u><u>\$ 20,505,962</u></u>

**Changes in net assets.** The District's financial position is the product of many factors. The normal property tax base growth, resulted in an increase of \$2.4 million in local revenue to the District. State aid reductions in important areas resulted in a decrease of \$1.2 million, as the state's economic outlook continues to loom large over all schools as additional cuts are forecast for the near future. Federal sources increased \$370,000.

The District's total revenues increased 3.1% to \$50.0 million. Local sources, including property taxes (65%) and state aid (25%) accounted for most of the District's revenue.

The total cost of all programs and services increased \$4.2 million (9.9%) to \$51.5 million. Almost \$1.7 million of the increase resulted from direct payments to local school districts for Special Education services. Additionally, the ISD increased services in other support areas to local school districts. The commitment of the Board of Education and management is to provide effective programs for all students in Jackson County, while striving to do so in a most cost efficient manner. The District's expenses are predominantly related to instructing (25%), providing services for pupils (46%) and direct payments to local school districts (28%). Instructional costs relate specifically to providing career and technical education to students of local school districts and to providing special education instruction to other students of local districts, too. The higher support services ratio would be consistent with the purpose of intermediate school districts, which is to provide support programs to districts in order to better educate students in the county.

### Changes in Net Assets

	<b>For the Year Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 374,130	\$ 496,839
Operating grants and contributi	13,571,484	11,207,163
General revenue:		
Property taxes	30,079,603	28,211,061
Unrestricted state aid	4,549,076	7,704,543
Other general revenue	1,482,491	938,121
<b>Total revenue</b>	<b>50,056,784</b>	<b>48,557,727</b>
<b>Program expenses</b>		
Instruction	13,004,742	11,986,641
Supporting services	23,402,908	21,893,055
Payments to other governments	14,288,553	12,594,804
Interest on long-term debt	1,361	4,995
Unallocated depreciation	825,932	771,675
<b>Total program expenses</b>	<b>51,523,496</b>	<b>47,251,170</b>
<b>Change in net assets</b>	<b>(1,466,712)</b>	<b>1,306,557</b>
Net assets, beginning of year	20,505,962	19,199,405
<b>Net assets, end of year</b>	<b>\$ 19,039,250</b>	<b>\$ 20,505,962</b>

### Financial Analysis of the District's Funds

All three of the District's major governmental funds decreased their financial position. The general operating fund decreased its position by 14.8% of its operating budget to \$2.4 million. The Career and Technical Education Fund, supported by designated millage funding, also decreased its financial position by 0.4% of its operating budget to \$4.0 million. The Special Education Fund, also supported by a designated millage, decreased its financial position by 0.9% of its operating funds to \$1.0 million. The total financial position for the major funds was decreased by 2.5% of their operating funds to \$7.5 million. This decrease in financial position was a planned reduction, and the final reduction was less than projected.

#### ***Budgetary Highlights of Major Funds***

Over the course of the year, the District revised the annual operating budget two times. These budget amendments fall into two major categories:

- Changes made in the second quarter to account for updated salary and fringe benefit information which was not clear at the time the budget was adopted, and
- Changes made to reclassify budgeted expenditures from one program area to another

The first type of change would have little impact of increasing, or decreasing, the fund's overall budget projection. The second type of change would have no impact on a fund's overall budget, although cost areas within the fund would be impacted

The original budget for the District's three major funds projected a \$547,000 total deficit for the fiscal year. Actual results, compared to the original budget, for the major funds are reported as follows:

Jackson County Intermediate School District Analysis of Original Budget to Final Operating Results for Major Funds For the Fiscal Year Ending June 30, 2005 (All number in millions)												
General Education Fund				Special Education Fund			Career & Technical Education Fund			Total Major Funds		
	Budget	Actual	Variance Fav/(Unfav)	Budget	Actual	Variance Fav/(Unfav)	Budget	Actual	Variance Fav/(Unfav)	Budget	Actual	Variance Fav/(Unfav)
Revenue	6.3	7.0	0.7	35.1	35.8	0.7	10.3	10.5	0.2	51.7	53.3	1.6
Expenditure	6.6	7.9	(1.3)	35.0	36.1	(1.1)	10.7	10.5	0.2	52.3	54.5	(2.2)
Surplus/(Deficit)	(0.3)	(0.9)	(0.6)	0.1	(0.3)	(0.4)	(0.4)	0.0	0.4	(0.6)	(1.2)	(0.6)

- Total actual revenues were \$1.6 million higher than budgeted, largely because the District's internal transfers were used to fund local school district reimbursement payments
- Total actual expenditures were \$2.2 million more than budgeted, due to the increased reimbursements.
- The deficit for the major funds was \$0.6 million (1.1%) more than originally planned. After the 2nd budget amendment, the budgeted loss was actually \$1.3 million less than anticipated.

## **Capital Asset and Debt Administration**

### ***Capital Assets***

The District's capital asset expenditures for the fiscal year were approximately \$920,000, or 1.8% of its total budget. The District's capital asset plan and facilities maintenance staff have protected the District's assets from deterioration with the constant and vigilant care required to maintain its capital asset investment at the levels of quality the District has enjoyed.

### ***Long-Term Debt***

The District is a secondary debtor on a note in which the state is primary holder. The debt is part of a state-wide settlement and was required so the state could fund, in part, its liability to districts in the state. The intermediate school district is the secondary debtor for its share of the under-funding payment. At year-end, the liability for this debt is \$1.9 million in principal and 0.5 million in interest. The debt is scheduled to expire in fiscal year 2013. The debt was refinanced to allow the state to take advantage of low interest rates experienced by the economy during the fiscal year.

### **Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of other circumstances that could significantly affect its financial health in the future. These include, but are not limited to:

- Health Insurance – Health care costs continue to weigh heavily upon all school districts in Michigan. Double-digit percentage increases in health care costs have pushed health care premiums to a point that forces districts to consider these costs as a more significant part of its total compensation package. The District has negotiated contracts with employee groups that will slow the growth of health care costs, while still maintaining an adequate level of care to the employees.
- State Funding – With the economic downturn currently experienced by the country, and the state, funding from state sources continue to be a concern of the Board of Education and administration. Revenue shortfalls are likely to impact state funding the District receives. Less state funding would cause the District to rely more heavily upon its local funding and federal funding sources. This shift in reliance would impact the District's ability to plan for future programmatic and financial stability.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dr. John M. Graves, Superintendent, or Dan Zimolzak, CPA, Director of Finance, at (517) 768-5200.

## **Basic Financial Statements**

## **District-wide Financial Statements**



**Jackson County Intermediate School District**  
**Statement of Net Assets**  
**June 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 9,749,871
Investments	707,165
Receivables	5,525,070
Prepaid items and other assets	286,525
Capital assets, net	<u>10,438,376</u>
<b>Total assets</b>	<u>26,707,007</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	5,114,056
Unearned revenue	487,211
Long-term debt:	
Due within one year	250,700
Due in more than one year	<u>1,815,790</u>
<b>Total liabilities</b>	<u>7,667,757</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	10,333,523
Restricted for:	
Construction projects	136,600
Other purposes	5,337,732
Unrestricted	<u>3,231,395</u>
<b>Total net assets</b>	<u><u>\$ 19,039,250</u></u>

The accompanying notes are an integral part of these financial statements.

**Jackson County Intermediate School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		<b><u>Net (Expense) Revenue</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	
Governmental activities:				
Instruction	\$ 13,004,742	\$ 360,564	\$ 12,357,810	\$ (286,368)
Supporting services	23,402,908	13,566	1,213,674	(22,175,668)
Payments to other governments	14,288,553	-	-	(14,288,553)
Interest on long-term debt	1,361	-	-	(1,361)
Unallocated depreciation	825,932	-	-	(825,932)
Total governmental activities	<u>\$ 51,523,496</u>	<u>\$ 374,130</u>	<u>\$ 13,571,484</u>	<u>(37,577,882)</u>
General revenues:				
Property taxes				30,079,603
Unrestricted state aid				4,549,076
Grants and contributions not restricted to specific programs				1,211,175
Unrestricted investment earnings				<u>271,316</u>
Total general revenues				<u>36,111,170</u>
Change in net assets				(1,466,712)
Net assets, beginning of year				<u>20,505,962</u>
Net assets, end of year				<u>\$ 19,039,250</u>

The accompanying notes are an integral part of these financial statements.

## **Fund Financial Statements**

**Jackson County Intermediate School District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<u>General</u>	<u>Special Education</u>	<u>Vocational Education</u>	<u>Durant Debt Service</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 4,126,024	\$ 828,437	\$ 4,365,543	\$ -
Investments	-	4,807	702,358	-
Due from other governments	1,436,710	1,346,149	708,305	1,874,316
Due from other funds	793,720	2,598,788	3,573	-
Long-term employee receivable	-	16,151	-	-
Note receivable	-	134,233	-	-
Inventories	72,331	-	-	-
Prepaid items	54,732	4,254	10,699	-
Land held for resale	-	-	144,509	-
	<u>-</u>	<u>-</u>	<u>144,509</u>	<u>-</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 6,483,517</u>	<u>\$ 4,932,819</u>	<u>\$ 5,934,987</u>	<u>\$ 1,874,316</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 280,519	\$ 136,677	\$ 4	\$ -
Salaries payable	67,448	1,722,051	552,728	-
Accrued expenditures	50,861	886,798	291,973	-
Due to other governments	48,631	772,257	304,109	-
Due to other funds	2,603,062	2,500	751,550	-
Deferred revenue	994,423	372,931	-	1,874,316
	<u>4,044,944</u>	<u>3,893,214</u>	<u>1,900,364</u>	<u>1,874,316</u>
Total liabilities				
	<u>4,044,944</u>	<u>3,893,214</u>	<u>1,900,364</u>	<u>1,874,316</u>
<b>Fund balances</b>				
Reserved for:				
Notes and long-term employee receivables	-	150,384	-	-
Prepays and inventories	127,063	4,254	10,699	-
Land held for resale	-	-	144,509	-
Unreserved:				
Undesignated	2,311,510	884,967	3,879,415	-
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
	<u>2,438,573</u>	<u>1,039,605</u>	<u>4,034,623</u>	<u>-</u>
Total fund balances				
	<u>2,438,573</u>	<u>1,039,605</u>	<u>4,034,623</u>	<u>-</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 6,483,517</u>	<u>\$ 4,932,819</u>	<u>\$ 5,934,987</u>	<u>\$ 1,874,316</u>

The accompanying notes are an integral part of these financial statement

Other Governmental Funds		Totals
\$	429,867	\$ 9,749,871
	-	707,165
	9,206	5,374,686
	3,894	3,399,975
	-	16,151
	-	134,233
	-	72,331
	-	69,685
	-	144,509
\$	442,967	\$ 19,668,606

\$	-	\$ 417,200
	-	2,342,227
	-	1,229,632
	-	1,124,997
	42,863	3,399,975
	-	3,241,670
	42,863	11,755,701

	-	150,384
	-	142,016
	-	144,509
	-	7,075,892
	263,504	263,504
	136,600	136,600
	400,104	7,912,905
\$	442,967	\$ 19,668,606

**Jackson County Intermediate School District**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2005**

Fund balances - total governmental funds	\$ 7,912,905
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	21,957,308
Deduct: accumulated depreciation	(11,518,932)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred long-term Durant Settlement receivable	2,754,459
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds payable	(1,979,169)
Deduct: compensated absences	(87,321)
Net assets of governmental activities	<u><u>\$ 19,039,250</u></u>

The accompanying notes are an integral part of these financial statements.

**Jackson County Intermediate School District**  
**Combined Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>General</u>	<u>Special Education</u>	<u>Vocational Education</u>	<u>Durant Debt Service</u>
<b>Revenue</b>				
Local sources	\$ 2,051,710	\$ 21,959,747	\$ 8,785,220	\$ -
State sources	2,985,963	6,526,423	1,395,456	-
Federal sources	240,454	5,826,517	351,685	-
	<u>5,278,127</u>	<u>34,312,687</u>	<u>10,532,361</u>	<u>-</u>
<b>Expenditures</b>				
Current:				
Instruction	107,200	7,149,804	5,747,738	-
Supporting services	5,431,850	14,628,310	3,762,569	-
Payments to other governmental entities or units	568,498	13,720,055	-	-
Debt service:				
Principal repayment	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay:				
Durant capital improvements	-	-	-	-
Technology capital improvements	-	-	-	-
	<u>6,107,548</u>	<u>35,498,169</u>	<u>9,510,307</u>	<u>-</u>
Total expenditures	<u>6,107,548</u>	<u>35,498,169</u>	<u>9,510,307</u>	<u>-</u>
Revenue over (under) expenditures	<u>(829,421)</u>	<u>(1,185,482)</u>	<u>1,022,054</u>	<u>-</u>
<b>Other financing sources (uses)</b>				
Proceeds from sales of capital assets	-	10,222	-	-
Proceeds from installment debt	-	-	-	-
Transfers in from other funds	1,720,000	1,500,000	-	-
Transfers out to other funds	(1,793,381)	(660,000)	(1,060,000)	-
	<u>(73,381)</u>	<u>850,222</u>	<u>(1,060,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(73,381)</u>	<u>850,222</u>	<u>(1,060,000)</u>	<u>-</u>
Net change in fund balances	(902,802)	(335,260)	(37,946)	-
Fund balances, beginning of year	<u>3,341,375</u>	<u>1,374,865</u>	<u>4,072,569</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 2,438,573</u></u>	<u><u>\$ 1,039,605</u></u>	<u><u>\$ 4,034,623</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statement

<b>Other Governmental Funds</b>		<b>Totals</b>
<hr/>		
\$ 104,538	\$ 32,901,215	
122,452	11,030,294	
-	6,418,656	
<hr/>		
226,990	50,350,165	
<hr/>		
-	13,004,742	
72,760	23,895,489	
-	14,288,553	
96,948	96,948	
1,361	1,361	
260,991	260,991	
274,610	274,610	
<hr/>		
706,670	51,822,694	
<hr/>		
(479,680)	(1,472,529)	
<hr/>		
-	10,222	
201,801	201,801	
293,381	3,513,381	
-	(3,513,381)	
<hr/>		
495,182	212,023	
<hr/>		
15,502	(1,260,506)	
384,602	9,173,411	
<hr/>		
<u>\$ 400,104</u>	<u>\$ 7,912,905</u>	



**Jackson County Intermediate School District**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds	\$ (1,260,506)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,035,751
Subtract: depreciation expense	(798,872)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.

Subtract: net book value of capital assets sold	(37,282)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Subtract: payments received on long-term Durant Settlement receivable	(293,381)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	96,948
Subtract: proceeds from issuance of long-term liabilities	(201,801)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Subtract: decrease in the accrual for compensated absences	(7,569)
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Change in net assets of governmental activities	<u><u>\$ (1,466,712)</u></u>
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The accompanying notes are an integral part of these financial statements.

**Jackson County Intermediate School District**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for the Year Ended June 30, 2004**

	<b>2005</b>				
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>	<b>2004 Actual</b>
<b>Revenue</b>					
Local sources:					
Property tax levy	\$ 1,292,488	\$ 1,261,926	\$ 1,257,756	\$ (4,170)	\$ 1,188,384
Other taxes	4,140	4,140	12,309	8,169	3,026
Penalties and interest on taxes	250	250	1,911	1,661	1,806
Earnings on investments and deposits	45,000	45,000	72,599	27,599	42,798
Rentals	21,000	21,000	15,570	(5,430)	14,871
Other	746,195	867,852	691,565	(176,287)	853,806
Total local sources	<u>2,109,073</u>	<u>2,200,168</u>	<u>2,051,710</u>	<u>(148,458)</u>	<u>2,104,691</u>
State sources:					
State school aid	1,865,000	2,594,763	2,421,485	(173,278)	2,001,613
Durant	293,381	293,381	293,381	-	293,381
Other	158,726	377,754	271,097	(106,657)	274,261
Total state sources	<u>2,317,107</u>	<u>3,265,898</u>	<u>2,985,963</u>	<u>(279,935)</u>	<u>2,569,255</u>
Federal sources:					
Title II	1,617	1,617	1,622	5	1,617
Title V	77,146	49,539	39,613	(9,926)	64,994
FIA	-	-	-	-	195,000
Drug Free	217,593	221,336	199,219	(22,117)	221,608
Other	250,000	250,000	-	(250,000)	23,129
Total federal sources	<u>546,356</u>	<u>522,492</u>	<u>240,454</u>	<u>(282,038)</u>	<u>506,348</u>
Total revenue	<u>4,972,536</u>	<u>5,988,558</u>	<u>5,278,127</u>	<u>(710,431)</u>	<u>5,180,294</u>
<b>Expenditures</b>					
Instruction - basic programs	<u>-</u>	<u>-</u>	<u>107,200</u>	<u>107,200</u>	<u>243,000</u>
Supporting services:					
Pupil support	227,650	205,173	201,432	(3,741)	215,636
Instructional support	2,319,808	2,474,999	1,840,858	(634,141)	1,802,827
General administration	873,286	879,359	875,826	(3,533)	670,383
Business services	932,292	1,006,058	939,168	(66,890)	850,107
Operations and maintenance	566,956	593,141	524,260	(68,881)	477,455
Central services	893,726	1,230,609	1,050,306	(180,303)	748,352
Total supporting services	<u>5,813,718</u>	<u>6,389,339</u>	<u>5,431,850</u>	<u>(957,489)</u>	<u>4,764,760</u>

continued...

**Jackson County Intermediate School District**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Concluded**  
**General Fund**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for the Year Ended June 30, 2004**

	<b>2005</b>				
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>	<b>2004 Actual</b>
<b>Expenditures (concluded)</b>					
Payments to other governmental entities or units	\$ 457,475	\$ 493,367	\$ 568,498	\$ 75,131	\$ 739,426
Total expenditures	6,271,193	6,882,706	6,107,548	(775,158)	5,747,186
Revenue (under) expenditures	(1,298,657)	(894,148)	(829,421)	64,727	(566,892)
<b>Other financing sources (uses)</b>					
Transfers in	1,320,000	1,720,000	1,720,000	-	1,320,000
Transfers out	(333,381)	(1,833,381)	(1,793,381)	40,000	(293,381)
Total other financing sources	986,619	(113,381)	(73,381)	40,000	1,026,619
Net change in fund balance	(312,038)	(1,007,529)	(902,802)	104,727	459,727
Fund balance, beginning of year	3,341,375	3,341,375	3,341,375	-	2,881,648
<b>Fund balance, end of year</b>	<b>\$ 3,029,337</b>	<b>\$ 2,333,846</b>	<b>\$ 2,438,573</b>	<b>\$ 104,727</b>	<b>\$ 3,341,375</b>

The accompanying notes are an integral part of these financial statements.

**Jackson County Intermediate School District**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**Special Education Special Revenue Fund**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for the Year Ended June 30, 2004**

	2005				
	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget	2004 Actual
<b>Revenue</b>					
Local sources:					
Property taxes	\$ 21,188,465	\$ 20,687,983	\$ 20,618,723	\$ (69,260)	\$ 19,477,082
Other taxes	77,600	77,600	201,785	124,185	49,590
Penalties and interest on taxes	5,500	5,500	31,335	25,835	29,601
Earnings on investments and deposits	45,000	45,000	83,696	38,696	33,361
Contributions	18,000	18,000	8,031	(9,969)	9,815
Medicaid fee for service	900,000	900,000	964,991	64,991	862,891
Rent	10,500	10,500	10,200	(300)	10,200
Other	17,000	17,000	40,986	23,986	4,793
Total local sources	22,262,065	21,761,583	21,959,747	198,164	20,477,333
State sources:					
State school aid - unrestricted	7,019,349	1,143,808	1,165,245	21,437	4,608,163
State school aid - restricted	164,600	5,414,600	5,361,178	(53,422)	3,609,667
Total state sources	7,183,949	6,558,408	6,526,423	(31,985)	8,217,830
Federal sources:					
IDEA Flowthrough	4,872,081	5,164,182	5,164,182	-	4,444,324
Preschool incentive	280,000	248,441	244,758	(3,683)	244,769
Infant and toddler early intervention	269,045	197,748	210,722	12,974	269,045
State initiated	234,940	200,178	206,855	6,677	223,121
Total federal sources	5,656,066	5,810,549	5,826,517	15,968	5,181,259
Total revenue	35,102,080	34,130,540	34,312,687	182,147	33,876,422
<b>Expenditures</b>					
Instruction:					
Added needs - special educatior	7,303,471	7,297,178	7,149,804	(147,374)	6,897,335

continued...

**Jackson County Intermediate School District**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Concluded**  
**Special Education Special Revenue Fund**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for the Year Ended June 30, 2004**

	2005				
	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget	2004 Actual
<b>Expenditures (continued)</b>					
Supporting services:					
Pupil support	\$ 9,022,273	\$ 9,109,133	\$ 9,070,633	\$ (38,500)	\$ 8,682,612
Instructional support	1,021,736	1,019,955	1,094,768	74,813	896,918
General administration	958,286	1,059,272	973,409	(85,863)	885,886
School administration	307,920	298,085	275,826	(22,259)	280,408
Business services	88,202	88,530	113,512	24,982	101,383
Operations and maintenance	555,663	557,303	582,552	25,249	577,429
Transportation	2,259,596	2,220,194	2,293,604	73,410	2,038,340
Central services	224,921	217,853	224,006	6,153	290,893
Total supporting services	14,438,597	14,570,325	14,628,310	57,985	13,753,869
Payments to other governmental entities or units	12,524,677	13,800,929	13,720,055	(80,874)	11,855,378
Total expenditures	34,266,745	35,668,432	35,498,169	(170,263)	32,506,582
Revenue over (under) expenditures	835,335	(1,537,892)	(1,185,482)	352,410	1,369,840
<b>Other financing sources (uses)</b>					
Proceeds from sales of capital assets	-	-	10,222	10,222	2,700
Transfers in	-	1,500,000	1,500,000	-	-
Transfers out	(705,000)	(660,000)	(660,000)	-	(660,000)
Total other financing (uses)	(705,000)	840,000	850,222	10,222	(657,300)
Net change in fund balance	130,335	(697,892)	(335,260)	362,632	712,540
Fund balance, beginning of year	1,374,865	1,374,865	1,374,865	-	662,325
<b>Fund balance, end of year</b>	<u>\$ 1,505,200</u>	<u>\$ 676,973</u>	<u>\$ 1,039,605</u>	<u>\$ 362,632</u>	<u>\$ 1,374,865</u>

The accompanying notes are an integral part of these financial statements.

**Jackson County Intermediate School District**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**Vocational Education Special Revenue Fund**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for the Year Ended June 30, 2004**

	2005				
	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget	2004 Actual
<b>Revenue</b>					
Local sources:					
Property taxes	\$ 8,083,938	\$ 7,892,974	\$ 7,866,841	\$ (26,133)	\$ 7,431,357
Other taxes	29,000	29,000	76,741	47,741	18,921
Penalties and interest on taxes	1,500	1,500	12,202	10,702	11,294
Tuition	142,000	142,000	253,364	111,364	235,439
Earnings on investments and deposits	60,000	60,000	109,671	49,671	44,657
Other	486,851	536,851	466,401	(70,450)	89,008
Total local sources	8,803,289	8,662,325	8,785,220	122,895	7,830,676
State sources:					
State school aid	833,691	949,976	962,346	12,370	1,094,767
Vocational education	352,813	352,813	423,482	70,669	373,841
Other	3,468	3,468	9,628	6,160	1,650
Total state sources	1,189,972	1,306,257	1,395,456	89,199	1,470,258
Federal sources:					
Perkins	291,000	300,734	290,045	(10,689)	308,930
Tech prep	52,000	50,951	61,640	10,689	52,485
Total federal sources	343,000	351,685	351,685	-	361,415
Total revenue	10,336,261	10,320,267	10,532,361	212,094	9,662,349
<b>Expenditures</b>					
Instruction:					
Basic programs - vocational education	5,383,880	5,685,697	5,542,402	(143,295)	4,652,413
Adult education	234,094	248,184	205,336	(42,848)	193,893
Total instruction	5,617,974	5,933,881	5,747,738	(186,143)	4,846,306

continued...

**Jackson County Intermediate School District**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Concluded**  
**Vocational Education Special Revenue Fund**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for the Year Ended June 30, 2004**

	2005				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>	<u>2004 Actual</u>
<b>Expenditures (continued)</b>					
Supporting services:					
Pupil support	\$ 982,410	\$ 925,414	\$ 866,710	\$ (58,704)	\$ 836,423
Instructional support	598,685	581,730	484,647	(97,083)	453,016
General administration	931,294	578,006	413,278	(164,728)	466,830
School administration	703,087	720,597	670,473	(50,124)	615,681
Operations and maintenance	798,682	861,282	855,852	(5,430)	767,699
Transportation	52,520	52,475	40,296	(12,179)	46,081
Central services	438,664	446,131	431,313	(14,818)	417,776
Total supporting services	<u>4,505,342</u>	<u>4,165,635</u>	<u>3,762,569</u>	<u>(403,066)</u>	<u>3,603,506</u>
Payments to other governmental entities or units	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>10,123,316</u>	<u>10,099,516</u>	<u>9,510,307</u>	<u>(589,209)</u>	<u>8,449,812</u>
Revenue over expenditures	212,945	220,751	1,022,054	801,303	1,212,537
<b>Other financing (uses)</b>					
Transfers out	<u>(660,000)</u>	<u>(1,135,150)</u>	<u>(1,060,000)</u>	<u>75,150</u>	<u>(660,000)</u>
Net change in fund balance	(447,055)	(914,399)	(37,946)	876,453	552,537
Fund balance, beginning of year	<u>4,072,569</u>	<u>4,072,569</u>	<u>4,072,569</u>	<u>-</u>	<u>3,520,032</u>
<b>Fund balance, end of year</b>	<u><u>\$ 3,625,514</u></u>	<u><u>\$ 3,158,170</u></u>	<u><u>\$ 4,034,623</u></u>	<u><u>\$ 876,453</u></u>	<u><u>\$ 4,072,569</u></u>

The accompanying notes are an integral part of these financial statements.

**Jackson County Intermediate School District**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Fund**  
**June 30, 2005**

**Assets**

Cash and cash equivalents	<u>\$ 29,465</u>
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**Liabilities**

Due to student groups	<u>\$ 29,465</u>
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The accompanying notes are an integral part of these financial statements.



## **Notes to the Financial Statements**

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Jackson County Intermediate School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Education Special Revenue Fund* accounts for special education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *Vocational Education Special Revenue Fund* accounts for vocational education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *Durant Debt Service Fund* accounts for the retirement of the Durant Bonds, which are financed through restricted state aid payments.

Additionally, the District reports the following fund types:

*Special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

*Capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities, major remodeling and improvements.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and equity**

#### ***1. Deposits and investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value based on quoted market prices.

#### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

#### ***3. Inventories and prepaids***

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the general and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the fund financial statements are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### ***4. Capital assets***

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years, or computer equipment with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Furniture and equipment	5-20
Transportation equipment	5-10

### 5. *Compensated absences*

*Vacation and Sick Pay* – Vacation days are earned by most year-round employees at rates specified under contractual provisions. Retiring/terminated employees are paid for unused accumulated vacation days. The District's sick pay and personal leave policies allow for accumulation of up to a certain number of days depending on the employee group involved. Upon termination of employment, all accumulated sick and personal days are forfeited. It is the District's policy to recognize the cost of such leave at the time payments are made.

The liability for compensated absences reported in the District-wide financial statements consists of unpaid, accumulated vacation days. The liability has been calculated for employees who currently are eligible to receive termination payments. The amount reported is salary related and includes no fringe benefits.

### 6. *Long-term obligations*

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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### 7. *Fund balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### 8. *Comparative data/reclassifications*

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. **Budgetary information**

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. All annual appropriations lapse at fiscal year end. The budgets for the General and special revenue funds are adopted on a functional basis.

### B. **Excess of expenditures over appropriations**

Budget to actual comparisons for the General Fund and each major Special Revenue Fund are presented in the fund financial statements at the legal level of budgetary control.

	<b>Final Budget</b>	<b>Actual</b>	<b>Over Budget</b>
General Fund:			
Instruction - basic programs	\$ -	\$ 107,200	\$ 107,200
Payments to other governmental units	493,367	568,498	75,131
Special Education:			
Instructional support	1,019,955	1,094,768	74,813
Business services	88,530	113,512	24,982
Operations and maintenance	557,303	582,552	25,249
Transportation	2,220,194	2,293,604	73,410
Central services	217,853	224,006	6,153

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Assets and Liabilities follows:

##### Statement of Net Assets

Cash and cash equivalents	\$ 9,749,871
Investments	707,165

##### Statement of Fiduciary Assets and Liabilities

Cash and cash equivalents	<u>29,465</u>
---------------------------	---------------

**\$ 10,486,501**

Cash on hand	\$ 6,684
Bank deposits (checking accounts, savings accounts and CDs)	8,910,379
Investments in governmental liquid asset funds	<u>1,569,438</u>

**\$ 10,486,501**

#### Statutory Authority

State statutes authorize the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. At June 30, 2005, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank Deposits (checking and savings)	n/a	\$ 8,910,379	n/a
Comerica Investment Pool	n/a	862,273	n/a
GE Commercial Paper	6 mos.	396,846	S&P – AAA
Michigan Liquid Asset Fund	n/a	<u>310,319</u>	S&P – AAAM
		<u><b>\$10,479,817</b></u>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$12,028,737 of the District's bank balance of \$12,430,440 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.



# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Special Education</u>	<u>Vocational Education</u>	<u>Durant Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount Not Expected to be Collected Within One Year</u>
<b>Receivables:</b>							
Intergovernmental	\$ 1,436,710	\$ 1,346,149	\$ 708,305	\$ 1,874,316	\$ 9,206	\$ 5,374,686	\$ 2,319,071
Long-term employee	-	16,151	-	-	-	16,151	12,940
Notes	-	134,233	-	-	-	134,233	105,248
<b>Total receivables</b>	<b><u>\$ 1,436,710</u></b>	<b><u>\$ 1,496,533</u></b>	<b><u>\$ 708,305</u></b>	<b><u>\$ 1,874,316</u></b>	<b><u>\$ 9,206</u></b>	<b><u>\$ 5,525,070</u></b>	<b><u>\$ 2,437,259</u></b>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund	\$ 880,143	\$ 114,280
Special Education (special revenue fund)	-	372,931
Durant Debt Service Fund	<u>1,874,316</u>	<u>-</u>
	<b><u>\$ 2,754,459</u></b>	<b><u>\$ 487,211</u></b>

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ <u>74,277</u>	\$ <u>-</u>	\$ <u>74,277</u>	\$ <u>-</u>
<b>Capital assets being depreciated:</b>				
Land improvements	112,027	-	-	112,027
Buildings and improvements	17,632,583	673,478	-	18,306,061
Furniture and equipment	1,546,803	163,126	-	1,709,929
Transportation equipment	<u>1,745,724</u>	<u>273,424</u>	<u>189,857</u>	<u>1,829,291</u>
<b>Total capital assets being depreciated</b>	<u><b>21,037,137</b></u>	<u><b>1,110,028</b></u>	<u><b>189,857</b></u>	<u><b>21,957,308</b></u>
<b>Less accumulated depreciation for:</b>				
Land improvements	5,511	3,480	-	8,991
Building and improvements	9,297,041	502,628	-	9,799,669
Furniture and equipment	896,854	113,132	-	1,009,986
Transportation equipment	<u>673,229</u>	<u>179,633</u>	<u>152,575</u>	<u>700,287</u>
<b>Total accumulated depreciation</b>	<u><b>10,872,635</b></u>	<u><b>798,872</b></u>	<u><b>152,575</b></u>	<u><b>11,518,932</b></u>
<b>Total capital assets being depreciated, net</b>	<u><b>10,164,502</b></u>	<u><b>311,156</b></u>	<u><b>37,282</b></u>	<u><b>10,438,376</b></u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 10,238,779</b></u>	<u><b>\$ 311,156</b></u>	<u><b>\$ 111,559</b></u>	<u><b>\$ 10,438,376</b></u>

Depreciation expense of \$798,872 was reported on the statement of activities as “unallocated depreciation” (i.e., not allocated to functions/programs). An additional \$27,060 was included with this amount representing a loss on the sale of capital assets.

### D. Payables

Accounts payable and accrued liabilities as of year end for the District’s individual major funds are as follows:

	<u>General</u>	<u>Special Education</u>	<u>Vocational Education</u>	<u>Total</u>
<b>Fund Financial Statements:</b>				
Accounts payable	\$ 280,519	\$ 136,677	\$ 4	\$ 417,200
Due to other governments	48,631	772,257	304,109	1,124,997
Salaries payable	67,448	1,722,051	552,728	2,342,227
Accrued liabilities	<u>50,861</u>	<u>886,798</u>	<u>291,973</u>	<u>1,229,632</u>
	<u><b>\$ 447,459</b></u>	<u><b>\$ 3,517,783</b></u>	<u><b>\$ 1,148,814</b></u>	<u><b>\$ 5,114,056</b></u>

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

### E. Interfund receivables, payables and transfers

At June 30, 2005, interfund receivables and payables consisted of the following:

	<u>Due to</u>	<u>Due from</u>
General Fund	\$ 2,603,062	\$ 793,720
Special Education Fund	2,500	2,598,788
Vocational Education Fund	751,550	3,573
Nonmajor governmental funds	<u>42,863</u>	<u>3,894</u>
	<u><b>\$ 3,399,975</b></u>	<u><b>\$ 3,399,975</b></u>

For the year ended June 30, 2005, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 1,793,381	\$ 1,720,000
Special Education Fund	660,000	1,500,000
Vocational Education Fund	1,060,000	-
Nonmajor governmental funds	<u>-</u>	<u>293,381</u>
	<u><b>\$ 3,513,381</b></u>	<u><b>\$ 3,513,381</b></u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2005, the District transferred funds to provide funds for capital projects and to return surplus special education and vocational education funds to the General Fund.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

### F. Long-Term debt

Long-term debt and other obligations of the District at June 30, 2005, are summarized as follows:

	<b>Long-Term Debt Outstanding at July 1, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Long-Term Debt Outstanding at June 30, 2005</b>	<b>Amount Due Within One Year</b>
1998 Durant School Improvement Bonds, due in annual installments of \$129,361 to \$264,932 through the year 2013; interest at 4.8% *	\$ 1,874,316	\$ -	\$ -	\$ 1,874,316	\$ 142,007
Networking Equipment Installment Purchase Agreement, due in annual installments of \$14,362 to \$96,948 through the year 2010; interest at 3.74%	-	201,801	96,948	104,853	21,372
<b>Total Installment Debt</b>	<b>1,874,316</b>	<b>201,801</b>	<b>96,948</b>	<b>1,979,169</b>	<b>163,379</b>
Compensated absences	79,752	7,569	-	87,321	87,321
<b>Total Long-Term Debt</b>	<b><u>\$ 1,954,068</u></b>	<b><u>\$ 209,370</u></b>	<b><u>\$ 96,948</u></b>	<b><u>\$ 2,066,490</u></b>	<b><u>\$ 250,700</u></b>

- \* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. Bond payments have been suspended for the years ended 2003, 2004 and 2005 and will resume in 2006.

Compensated absences are generally liquidated by the general fund.

Future principal and interest payment requirements on outstanding debt are as follows:

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2006	\$ 163,379	\$ 67,572	\$ 230,951
2007	170,919	59,997	230,916
2008	178,883	52,071	230,954
2009	187,181	43,775	230,956
2010	185,404	35,157	220,561
2011-2013	1,093,403	290,836	1,384,239
<b>Total</b>	<b><u>\$ 1,979,169</u></b>	<b><u>\$ 549,408</u></b>	<b><u>\$ 2,528,577</u></b>

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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### IV. OTHER INFORMATION

#### A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The District is self insured to provide health benefits for certain employee groups. The District estimates the liability for its self-insured coverages and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the District's third-party administrators for claims management and are recorded in the General Fund. Changes in the estimated liability are as follows:

	<u>2005</u>
Estimated liability, beginning of year	\$ -
Estimated claims incurred, including changes in estimates	255,559
Claim payments	<u>(215,061)</u>
<b>Estimated liability, end of year</b>	<b><u>\$ 40,498</u></b>

#### B. Property taxes

Property taxes are assessed as of December 31 and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on whose boundaries include property within the District and are due on September 15.

#### C. Defined benefit pension plan

##### *Plan Description*

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes To Financial Statements

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### *Funding Policy*

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2005, 2004, and 2003, were \$2,841,299, \$2,448,328, and \$2,405,954, respectively, equal to the required contributions for each year.

### *Other Post Employment Benefits*

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

\* \* \* \* \*

## **Combining and Individual Fund Financial Statements**

**Jackson County Intermediate School District**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2005**

	<u>Special Revenue Training Assistance</u>	<u>Capital Projects Technology Capital Projects</u>	<u>Durant Capital Projects</u>	<u>Totals</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 254,298	\$ 138,383	\$ 37,186	\$ 429,867
Due from other governments	9,206	-	-	9,206
Due from other funds	-	1,394	2,500	3,894
	<u>-</u>	<u>1,394</u>	<u>2,500</u>	<u>3,894</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 263,504</u>	<u>\$ 139,777</u>	<u>\$ 39,686</u>	<u>\$ 442,967</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 42,813	\$ 50	\$ 42,863
<b>Fund balances</b>				
Unreserved, undesignated	263,504	96,964	39,636	400,104
	<u>263,504</u>	<u>96,964</u>	<u>39,636</u>	<u>400,104</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 263,504</u>	<u>\$ 139,777</u>	<u>\$ 39,686</u>	<u>\$ 442,967</u>



**Jackson County Intermediate School District**  
**Combining Statement of Revenue, Expenditures**  
**and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>Special Revenue Training Assistance</u>	<u>Capital Projects Technology Capital Projects</u>	<u>Durant Capital Projects</u>	<u>Totals</u>
<b>Revenue</b>				
Local revenue:				
Tuition	\$ 13,566	\$ -	\$ -	\$ 13,566
Earnings on investments and deposits	-	2,074	3,276	5,350
Other	4,046	81,576	-	85,622
State revenue	122,452	-	-	122,452
	<u>140,064</u>	<u>83,650</u>	<u>3,276</u>	<u>226,990</u>
Total revenue				
	<u>140,064</u>	<u>83,650</u>	<u>3,276</u>	<u>226,990</u>
<b>Expenditures</b>				
Supporting services - other	72,760	-	-	72,760
Debt service:				
Principal	-	96,948	-	96,948
Interest	-	1,361	-	1,361
Capital outlay:				
Durant capital improvements	-	-	260,991	260,991
Technology capital improvements	-	274,610	-	274,610
	<u>72,760</u>	<u>372,919</u>	<u>260,991</u>	<u>706,670</u>
Total expenditures				
	<u>72,760</u>	<u>372,919</u>	<u>260,991</u>	<u>706,670</u>
Revenue over (under) expenditures	67,304	(289,269)	(257,715)	(479,680)
	<u>67,304</u>	<u>(289,269)</u>	<u>(257,715)</u>	<u>(479,680)</u>
<b>Other financing sources</b>				
Proceeds from installment debt	-	201,801	-	201,801
Transfers in	-	-	293,381	293,381
	<u>-</u>	<u>201,801</u>	<u>293,381</u>	<u>495,182</u>
Total other financing sources				
	<u>-</u>	<u>201,801</u>	<u>293,381</u>	<u>495,182</u>
Net change in fund balances	67,304	(87,468)	35,666	15,502
	<u>67,304</u>	<u>(87,468)</u>	<u>35,666</u>	<u>15,502</u>
Fund balance, beginning of year	196,200	184,432	3,970	384,602
	<u>196,200</u>	<u>184,432</u>	<u>3,970</u>	<u>384,602</u>
<b>Fund balance, end of year</b>	<u>\$ 263,504</u>	<u>\$ 96,964</u>	<u>\$ 39,636</u>	<u>\$ 400,104</u>

**Jackson County Intermediate School District**  
**Statement of Changes in Assets and Liabilities**  
**Agency Fund**  
**For the Year Ended June 30, 2005**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 24,918</u>	<u>\$ -</u>	<u>\$ (4,547)</u>	<u>\$ 29,465</u>
 <b>Liabilities</b>				
Due to student groups	<u>\$ 24,918</u>	<u>\$ -</u>	<u>\$ (4,547)</u>	<u>\$ 29,465</u>

## **Single Audit**

**Jackson County Intermediate School District**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2005**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass- Through Grantor's Number</b>	<b>Approved Award/ Grant Amount</b>	<b>Accrued, (Deferred) Revenue, Beginning of Year</b>	<b>Adjustments</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>					
Passed-through Michigan Department of Education:					
2004-2005 IDEA Flowthrough	84.027	050450/0405	\$ 5,164,182	\$ -	\$ -
2004-2005 State Initiated/Competitive EOSD	84.027A	050480/EOSD	40,000	-	-
2004-2005 State Initiated/Competitive TMT	84.027A	050480/TMT	15,118	-	-
			<u>55,118</u>	<u>-</u>	<u>-</u>
2003-2004 State Initiated/Department TS	84.027A	030490-TS	90,000	-	2,882
2004-2005 State Initiated/Department TS	84.027A	050490-TS	90,000	-	-
2004-2005 State Initiated/Department CB	84.027A	050490-CB	61,737	-	-
			<u>241,737</u>	<u>-</u>	<u>2,882</u>
2003-2004 Preschool Incentive	84.173	030460/RC0304	244,769	-	(244,769)
2003-2004 Preschool Incentive	84.173	040460/0304	-	-	244,769
2004-2005 Preschool Incentive	84.173	050460/0405	244,758	-	-
			<u>489,527</u>	<u>-</u>	<u>-</u>
2003-2004 Infant and Toddler Formula	84.181A	041340/190	236,721	-	-
2004-2005 Infant and Toddler Formula	84.181A	051340/190	198,019	-	-
			<u>434,740</u>	<u>-</u>	<u>-</u>
2003-2004 Drug Free Grants Carryover	84.186	042860/0405	9,372	-	-
2003-2004 Drug Free Grants Carryover	84.186	042860/0304	-	512	-
2004-2005 Drug Free Grants	84.186	052860/0405	211,964	-	-
			<u>221,336</u>	<u>512</u>	<u>-</u>
2003-2004 Title V, Part A Title VI Carryover	84.298	040250/0304	34,108	8,386	-
2003-2004 Title V, Part A Title VI Carryover	84.298	040250/0405	12,151	-	-
2004-2005 Title VI, Part 4 Regular	84.298	050250/0405	37,338	-	-
			<u>83,597</u>	<u>8,386</u>	<u>-</u>
2003-2004 Title II, Part A Regular	84.367	050520/0405	1,622	-	-
Subtotal passed-through Michigan Department of Education			<u>6,691,859</u>	<u>8,898</u>	<u>2,882</u>
Passed-through Hillsdale County Intermediate School District:					
2003-2004 Perkins	84.048A	N/A	308,930	105,953	-
2004-2005 Perkins	84.048A		300,734	-	-
2003-2004 Vocational Education Tech Prep	84.048A	N/A	52,485	1,737	-
2004-2005 Vocational Education Tech Prep	84.048A	N/A	50,591	-	-
Subtotal passed-through Hillsdale County Intermediate School District			<u>712,740</u>	<u>107,690</u>	<u>-</u>
<b>Total U.S. Department of Education</b>			<u>7,404,599</u>	<u>116,588</u>	<u>2,882</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					
Passed-through Michigan Department of Community Health:					
Medicaid Outreach	93.778	N/A	-	(182,800)	-
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 7,404,599</u></u>	<u><u>\$ (66,212)</u></u>	<u><u>\$ 2,882</u></u>

<b>Current Year Receipts</b>	<b>Current Year Expenditures</b>	<b>Accrued (Deferred) Revenue, End of Year</b>
\$ 5,164,182	\$ 5,164,182	\$ -
40,000	40,000	-
15,118	15,118	-
55,118	55,118	-
(2,882)	-	-
90,000	90,000	-
61,737	61,737	-
148,855	151,737	-
244,769	-	-
(244,769)	-	-
244,758	244,758	-
244,758	244,758	-
-	12,703	12,703
198,019	198,019	-
198,019	210,722	12,703
-	9,372	9,372
512	-	-
168,167	189,847	21,680
168,679	199,219	31,052
8,386	-	-
12,151	12,151	-
16,379	27,462	11,083
36,916	39,613	11,083
1,622	1,622	-
6,018,149	6,066,971	54,838
105,953	-	-
234,171	290,045	55,874
1,737	-	-
49,683	61,640	11,957
391,544	351,685	67,831
6,409,693	6,418,656	122,669
190,131	-	(372,931)
<b>\$ 6,599,824</b>	<b>\$ 6,418,656</b>	<b>\$ (250,262)</b>

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Notes to Schedule of Expenditures of Federal Awards

### 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Jackson County Intermediate School District (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts presented in this schedule agree or reconcile to the amounts presented in, or used in the preparation of, the financial statements, and the financial reports filed with the Michigan Department of Education.

The District's reporting entity is defined in Note I of the District's financial statements. The District administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the District's reporting entity. Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
IDEA Flowthrough	84.027	\$ 159,000
Drug Free Grants	84.186	<u>23,758</u>
<b>Total</b>		<b><u>\$ 182,758</u></b>

### 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's financial statements.

### 3. OTHER INFORMATION

The amounts reported on the R7120 (Grants Section Auditors Report) reconcile to the accompanying Schedule of Expenditures of Federal Awards.

### 4. MEDICAID OUTREACH

During the year ended June 30, 2005, the District received \$190,131 in funding from the Michigan Department of Community Health for the Medicaid Administrative Outreach and Transportation Program, for distribution to (and subsequent expenditure by) local school districts within the jurisdiction of the Jackson Intermediate School District. Due to uncertainties surrounding whether these funds will eventually have to be repaid to MDCH, the District has elected to defer the distribution of these funds to the local school districts until a later date, when more information is available. Accordingly, the amount received were recorded as deferred revenue, and not reflected as expended on the accompanying Schedule of Expenditures of Federal Awards.

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

September 16, 2005

Board of Education  
Jackson County Intermediate School District  
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Jackson County Intermediate School District**, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Jackson County Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Jackson County Intermediate School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Jackson County Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standard* and is described in the accompanying schedule of findings and questioned costs as item 2005-2. This reportable condition is not considered to be a material weakness.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the ***Jackson County Intermediate School District*** in a separate letter dated September 16, 2005.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.





**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO MAJOR PROGRAMS AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

September 16, 2005

Board of Education  
Jackson County Intermediate School District  
Jackson, Michigan

**Compliance**

We have audited the compliance of the *Jackson County Intermediate School District* with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

### **Internal Control Over Compliance**

The management of the Jackson County Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Jackson County Intermediate School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

However, we noted other matters involving the internal control over financial reporting, compliance, and/or operating efficiency that we have reported to the management of the Jackson County Intermediate School District in a separate letter dated September 16, 2005.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes    X no

Reportable condition(s) identified  
not considered to be material weaknesses?

X yes    \_\_\_\_\_ none reported

Noncompliance material to financial statements  
noted?

\_\_\_\_\_ yes    X no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes    X no

Reportable condition(s) identified  
not considered to be material weaknesses?

X yes    \_\_\_\_\_ none reported

Type of auditors' report issued on compliance  
for major programs:

Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?

X yes    \_\_\_\_\_ no

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2005

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### SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education Cluster
84.048A	Vocational Education

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   yes        no

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### 2005-1      Accounting for Agency Funds

Generally accepted accounting principles require that the District maintain a financial reporting system in order to properly report all activities of the District. However, the District has several “activity” accounts (agency funds) that are maintained at decentralized locations that are not recorded in the District’s accounting system, or reconciled in a timely manner. In the prior year, we recommend that the District bring these activities under central control of the Finance Department, and that the District’s normal policies and procedures for the receipt and disbursement of District funds be followed for all accounts. For the year ended June 30, 2005, no action was taken on this recommendation.

In connection with our audit of the year ended June 30, 2005, we requested copies of the accounting records (including bank reconciliations) for these “off-books” accounts. Through this process, we determined that reconciliations had not been completed, and that the District does not have internal controls in place for the proper oversight, monitoring, and reporting of its agency funds.

# JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2005

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### SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS

#### 2005-2 Allocation of Payroll Expenditures

Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work full time on a single activity or multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a certification system that has been approved by the cognizant Federal agency.

During the year ended June 30, 2005, the District allocated payroll charges to certain federal programs (including the Special Education Cluster and Vocational Education), which were not supported by personnel activity reports, certifications, or other acceptable documentation as required by federal regulations. Instead, all the payroll charges were allocated to federal programs in the first 12 pay periods of the fiscal year, in order to limit the amount charged to the federal program to the maximum amount allowable under the grant budget. Management has asserted that all of the employees involved spent 100% of their time on allowable activities, and that the allocation method was simply intended to limit the amount charged to each program.

According to federal guidelines, “where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee” [OMB Circular A-87 Attachment B §11(h)(3)].

While it appears that the actual time spent by District employees on these functions either equaled or exceeded the amounts allocated to individual programs, this method of payroll documentation is not consistent with federal guidelines, as it lacks the required semi-annual certification.

No costs were questioned in the current year as a result of this finding.

### SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

\* \* \* \* \*

## **Appendix**



## Jackson County Intermediate School District Gerald B. Kratz Education Center

### **Management's Response and Corrective Action Plan**

This memo is the Jackson County ISD Management response to recommendations proposed by the audit firm of Rehmann Robson in its Schedule of Findings and Questioned Costs for the year ended June 30, 2005.

#### **2005-1 Accounting for Agency Funds**

The purpose of activity funds is to allow programs the flexibility to have access the activity's funds. A responsible person maintains the checkbook for the fund. That person's responsibilities include making deposits of funds as they are received and writing checks to disburse funds when the appropriate documentation is presented for payment.

The District's Administrative Office will maintain a ledger card for the respective fund. The ledger will detail each deposit and disbursement.

The District will reconcile the account of the activity fund. Reconciliations will occur monthly.

#### **2005-2 Allocation of Payroll Expenditures**

Management will secure periodic certifications the employees worked on a program for the period covered by the certification in a timely manner. However, it should be noted that the method used during the 2004-05 fiscal year was implemented on the advice of Federal auditors at the State level.

Respectfully submitted,

Dan Zimolzak, CPA  
Director of Finance, Jackson County ISD  
October 20, 2005



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



September 16, 2005

To the Board of Education of the  
Jackson County Intermediate School District  
Jackson, Michigan

We have audited the financial statements of the **Jackson County Intermediate School District** for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated August 9, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Jackson County Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Jackson County Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Jackson County Intermediate School District compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Jackson County Intermediate School District compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Jackson County Intermediate School District compliance with those requirements.



### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Jackson County Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Jackson County Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Jackson County Intermediate School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Jackson County Intermediate School District, either individually or in the aggregate, indicate matters that could have a significant effect on the Jackson County Intermediate School District's financial reporting process.

In addition, management elected not to post a proposed audit adjustment to prepaid self-insured benefits, which had the effect of overstating assets and understating expenditures in the amount of \$12,243. Management has determined that the effect of not posting this adjustment is immaterial to the financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Jackson County Intermediate School District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **Jackson County Intermediate School District**

## **Comments and Recommendations**

**For the Year Ended June 30, 2005**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 16, 2005 on the financial statements of the Jackson County Intermediate School District.

### **Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a *complete* segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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